

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 6120

Tariff filing of Central Vermont Public Service)
Corporation requesting a 12.9% rate increase, to)
take effect July 27, 1998)

Docket No. 6460

Tariff filing of Central Vermont Public Service)
Corporation requesting a 7.6% rate increase,)
to take effect December 24, 2000)

PREFILED SURREBUTTAL TESTIMONY OF
CAROLE E. WELCH
ON BEHALF OF THE
VERMONT DEPARTMENT OF PUBLIC SERVICE

April 20, 2001

Summary: Ms. Welch rebuts CVPS' Witness Bruce Bentley's rebuttal testimony filed March 30, 2001 in this docket.

Prefiled Surrebuttal Testimony
of
Carole E. Welch

1 Q. Please state your name and occupation.

2 A. My name is Carole Welch. I am an Energy Policy & Program Analyst for the
3 Vermont Department of Public Service ("Department" or "DPS").

4 Q. Have you previously filed testimony in this Docket?

5 A. Yes.

6 Q. What is the purpose of your testimony?

7 A. My testimony addresses certain items contained in CVPS' Witness Bruce Bentley's
8 rebuttal testimony in this docket filed March 30, 2001.

9 Q. Please summarize your testimony.

10 A. I continue to support a reduction of \$ 253,623 in the total C&LM deferral amount
11 the Company seeks to recover in Docket 6460 shown in COS Adjustment 23 (Exhibit
12 CVPS-Bentley-3), and \$ 594,623 in the total ACE amount shown in COS Adjustment 24
13 (Exhibit CVPS-Bentley-3). Further, I provide evidence and argument to counter certain
14 portions of Mr. Bentley's testimony regarding the need for the ACE mechanism or
15 CVPS's alternative proposed in Mr. Bentley's prefiled testimony in this Docket.

16 Q. Please discuss your continued support for the C&LM deferral reduction amount in your
17 prefiled testimony.

18 A. In his rebuttal testimony, Mr. Bentley asserts it is "customary" to update estimated

1 with actual expenditures throughout the case, up to the time of the compliance tariffs and
2 related cost of service are filed with the Board following the Board's order in the docket.
3 This characterization is incorrect.

4 What has been customary with CVPS is that estimated expenditures for DSM
5 programs contained in the original filing have been updated by the Company up to the
6 time of the Company's rebuttal. This practice has its genesis in the CVPS cost recovery
7 agreement approved by the Board in Docket 5491 and that expired July 1, 1994. Under
8 that agreement, the DPS was not required to take a position on the updated amounts until
9 a subsequent rate case.

10 Since the expiration of the cost recovery agreement, the DPS has continued this
11 practice with CVPS so that the Company's rebuttal testimony was the cut-off time to
12 update estimated expenditures in the filing with actual amounts. Anything that was not
13 actual at the time of rebuttal was excluded from cost recovery for that docket. The actual
14 amounts determined subsequent to that Docket would be booked and become part of the
15 cost recovery amount request in a subsequent rate case.¹

16 The process proposed by Mr. Bentley contains a fundamental flaw, as under that
17 scenario the DPS has no opportunity to review the actual expenditure amounts before they
18 are included in the Company's rates and consequently paid for by the ratepayers. Further,
19 the Company has not yet provided updates of actual C&LM expenditures for 2001 nor

¹ It is my understanding that technically, the Company has no right to update at all during the pendency of a docket. The DPS has consented to this practice with CVPS in the past only under these circumstances.

1 any documentation or information concerning those expenditures. I therefore reassert the
2 position stated in my prefiled testimony on p. 3, lines 1 - 4.

3 Q. Do you have any comments regarding Mr. Bentley's testimony concerning the ACE
4 calculation contained in the instant Docket?

5 A. Yes. Mr. Bentley asserts that in my testimony, I "take issue with the incremental
6 operational savings" calculation contained in the Company's original filing. My prefiled
7 testimony clearly takes issue only with the values the Company used for market clearing
8 prices when calculating production cost savings in its original filing and the updating of
9 those prices. This information is readily available from the ISO-NE website and is up to
10 date. Mr. Bentley's introduction of the use of a different avoided T&D value of "probably
11 very nearly zero" in the ACE calculation is not only untimely, but is virtually unsupported
12 by any documentation or analysis of what that amount should be. Furthermore, I am
13 unaware of the availability of a comparable, defensible value on which to base a proposal
14 to change the T&D avoided costs contained in the Company's original filing. If the
15 Company believes the values contained in its ACE calculation for avoided T&D are not
16 correct, it should have incorporated its position in the Company's original filing. To argue
17 that the DPS is "selectively updating" and thus is bound to update all the assumptions
18 used to calculate the Company's short term savings from its implementation of efficiency
19 measures is not reasonable.

20 Q. Mr. Bentley's rebuttal testimony contains considerable discussion to support the
21 Company's contention that a regulated Vermont utility has an entitlement to a lost revenue
22 recovery mechanism. Please comment.

23 A. In his rebuttal, (p. 9, line 9-11), Mr. Bentley appears to make two points in his

1 support of this contention: (1) a utility's entitlement to ACE or an alternate mechanism is
2 the same whether the Company or EVT is running the programs and (2) EVT is funded
3 the same way the Company was funded when it was running its C&LM programs.
4

5 The record in Docket 5270 and its progeny clearly reflects the Board's position
6 that the ACE mechanism was instituted to remove the inherent disincentive a utility
7 experiences when it is charged with providing services that reduce its revenues. It is not
8 the potential lost revenue *per se*, but rather that a utility would not be sufficiently
9 motivated to implement effective programs without addressing this disincentive. Now that
10 EVT is responsible for implementing certain statewide energy efficiency programs, the
11 need to remove the utility's disincentive is gone. See generally Docket 5270 order of
12 4/16/90, Volume IV. pp. 66 - 72.

13 Q. Do you agree with Mr. Bentley that the statewide energy efficiency utility is funded the
14 same way the Company's C&LM programs were funded?

15 A. While Mr. Bentley is correct that in both cases a portion of each customer's bill is
16 used to fund efficiency programs, I do not agree that the funding is the same. Efficiency
17 Vermont is funded with the proceeds of an Energy Efficiency Charge (EEC) that appears
18 on most Vermont electric consumers' bill.² This charge is a strict passthrough; that is,
19 neither the revenue collected, nor the expenditures made from this charge appear on the
20 Company's financial statements. The Board's 11/19/99 order in Docket 5980 approving
21 the energy efficiency charge for 2000 states "The funds collected under the energy

² The exceptions are Burlington Electric Department customers, one Green Mountain Power special contract, and a small number of CVPS customers served by generation displacement contracts.

1 efficiency charge also do not belong to the utilities charged with their collection.” See
2 Order, p. 19. In other words, the utility has no direct control over how the EEC funds
3 are spent. This is a substantive difference from CVPS managed programs, where the
4 Company’s C&LM budget paid for C&LM services from its rate revenue.

5 Q. What is your response to Mr. Bentley’s support of an ACE alternative rate making
6 mechanism?

7 A. In his rebuttal testimony, Mr. Bentley makes a number of assertions regarding the
8 “reasonableness” of his proposal to adjust test year sales volumes by EVT’s savings
9 projections. He first argues such an adjustment would meet a “known and measurable”
10 criterion and is therefore a sound basis for establishing rates. To support his argument, he
11 points to EVT’s “known budget” that will generate “known savings”. While such
12 confidence is appealing, his uncompromising reliance on EVT’s savings projections is a bit
13 over reaching when it comes to rate making policy in Vermont.

14 First, EVT’s annual savings projections contained in its Year 2001 Plan are
15 presented as a budgeting convenience. EVT’s contract with the Public Service Board is
16 for three years, and the savings goal is for the three years. Given EVT’s focus on market
17 transformation activities, as well as annualized savings goals, the savings acquired by EVT
18 during a specific time during that three year period could be quite variable. I’m sure Mr.
19 Bentley would agree that efficiency acquisitions from specific programs and projects
20 sometimes do not happen as quickly or as smoothly as one would like. In Docket 5656,
21 the Board seemed to agree, when it supported the DPS recommendation to limit the cost
22 recovery of Citizens’ Utilities’ Company (CUC) ACE amount to reflect only the net lost
23 revenues from those measures actually installed at the time of the Company’s rate filing.

1 In its filing, CUC had sought to recovery lost revenues from “committed” measures as
2 well as “completed” measures. See 01/26/94 Order Docket 5656, p. 83-84.

3 Additionally, EVT’s savings projections are for the entire state and are not specific
4 to a utility service territory. While the Docket 5980 MOU and EVT’s contract require
5 EVT to make efforts to provide geographic and customer class equity in the provision of
6 its services, there is no requirement that a specific savings amount come from any one
7 utility service territory. In summary, while Mr. Bentley’s confidence is appealing, it is not
8 sufficiently compelling for rate making purposes.

9 Q. Do you have any comments concerning Mr. Bentley’s assertions regarding investor risk?

10 A. I’ll try. Just as Mr. Bentley asserts he is not a lawyer, I will assert I am not an
11 economist nor an expert on electric supply or the ISO-New England market clearing price
12 mechanisms. However, it seems to me that, as DPS witness Lamont addresses in his
13 surrebuttal testimony, demand side efficiencies can reduce a distribution company’s risk in
14 times of power supply market volatility. If a Company does not have to purchase as many
15 MWh’s at times of high market prices, the shareholders benefit. If it has excess energy
16 created through efficiency, it has the opportunity to sell that excess and generate
17 additional revenue. Rather than portray demand side efficiencies as instruments of
18 destruction to utility shareholders, these “nega-watts” can potentially add to shareholders
19 return between rate cases.

20 Q. Do you have any comments regarding Mr. Bentley’s observation the Company would not
21 need to track detailed EVT program savings for rate making purposes?

1 A. Only that the Company would likely want to continue tracking EVT savings with
2 respect to its DUP needs. In addition, the Company has already invested in database
3 modifications needed to use the information provided by EVT. This assumed additional
4 benefit of Mr. Bentley's proposed ACE alternative is not persuasive.

5 Q. On page 17, Mr. Bentley makes a statement concerning the parties who signed the Docket
6 5980 MOU. Please comment.

7 A. Incredibly, Mr. Bentley concludes that paragraph 44 in the MOU shows that "all
8 parties recognized the essence of ACE in terms of giving a utility a fair opportunity to earn
9 its allowed return." Apparently, Mr. Bentley believes he can correctly state what all
10 parties think about a particular MOU condition. However, the MOU by its nature is a
11 product of considerable compromise. In fact, I can state that the DPS did not and does
12 not make the described recognition. The contents of paragraph 44 are what they are...
13 nothing more, and nothing less.

14 Q. Do you have any conclusions you would like to share at this point?

15 A. Yes. My position regarding the Company's request to approve its alternative
16 mechanism or to extend the ACE mechanism has not changed. The Board should deny
17 both requests.

18 Q. Does that conclude your testimony at this time.

19 A. Yes.